

Market overview

Russian economy in 2020

2020 saw Russian macroeconomic performance follow global trends as it was negatively affected by the COVID-19 pandemic and weaker consumer and investment demand.

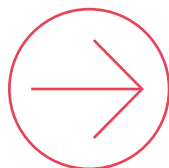
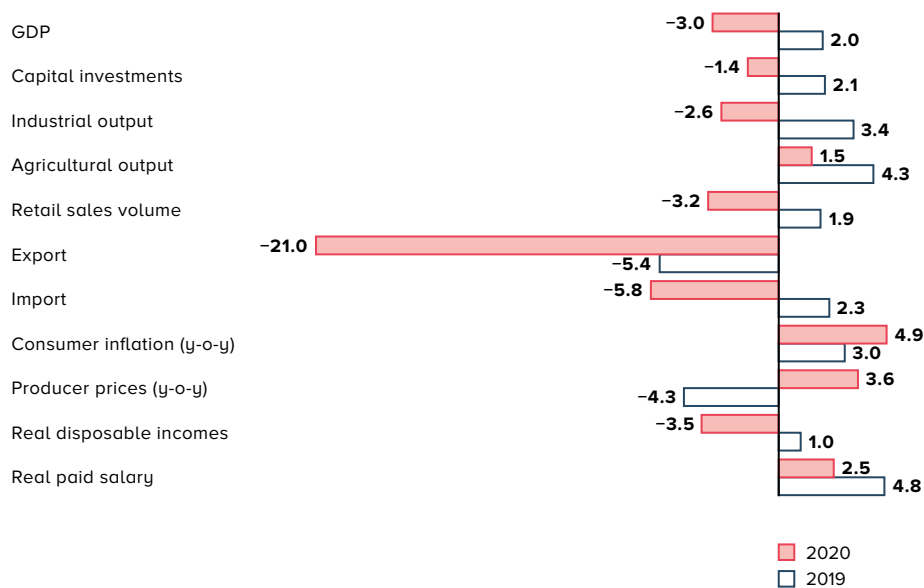
The nation's GDP dropped by 3.0% after a 2.0% growth in 2019. In Q2 2020, the Russian economy reached its lowest point, with recession amounting to 7.8% year-on-year. In Q3, the downturn was less pronounced, standing at 3.5%, and Q4 saw a contraction of 1.8%. In 2020, industrial production, which is of critical importance to the rail freight transportation sector, decreased by 2.6% after expanding by 3.4% in 2019. The contraction in extractive industries in 2020 totalled 6.9%, whereas the processing sector saw an insignificant upside (by 0.6%).

Factors that had an additional negative impact on the Russian economy in 2020 include low global prices for oil and some other goods that Russia exports. Exports of many cargoes accounting for a major share of export rail freight transportation also dropped in volume terms.

Despite the economic fallout from the pandemic and low oil prices, the Russian economy contracted less than many developed economies in 2020, which is primarily the result of its structure. A number of large businesses that are the backbone of the economy were not affected by the lockdown due to the nature of their operations. In Russia, the number of SMEs and businesses in the services sector that suffered greatly from the crisis and lockdown is far lower than in developed countries. The government's refusal to reintroduce restrictions in Q4 2020 also spurred further recovery of the national economy.

Drivers that supported the Russian economy in 2020 include the anti-crisis programme by the Russian Government, increased government spending, relatively expansionary monetary policy pursued by the Bank of Russia, and redistribution of significant funds that

Change in Russian macroeconomic indicators, % y-o-y



households were unable to spend abroad because of the closed borders in favour of domestic consumption.

However, a milder decline of the Russian economy in 2020 as compared to the global economy means that recovery will be less pronounced as well. According to the base case scenario of the Russian Ministry of Economic Development of September 2020, the Russian GDP growth in 2021 will total 3.3%, with the April 2021 forecast revising the growth rate down to 2.9%. According to the IMF outlook, the Russian GDP will add 3.8% in 2020, compared to the expected global GDP growth of 6.0%.

At the same time, the Russian economy is exposed to relatively high risks in 2021, including uncertainty about further epidemiological developments in the country and globally, geopolitical tensions and probability of new sanctions, implications of a return to the

conservative fiscal policy, and probable price corrections in global commodity markets.

Freight transportation market

According to the Russian Federal State Statistics Service, in 2020, freight turnover in Russia decreased by 4.9% y-o-y to 5,397.2 bn tkm. In particular, 2020 saw freight turnover of the pipeline transport decrease by 8%, air transport by 3.7%, inland waterways by 8.6%, and road transport by 1.3%, with sea transport being the only exception and delivering an increase of 16.2% in freight turnover.

Loaded freight turnover in the railway segment dropped by 2.2%. Railway transport expanded to account for 47.2% of the country's total freight turnover (up 1.3 pp vs 2019), or 87% (down 0.1 pp vs 2019) with the pipeline transport excluded.

Passenger transportation market

In 2020, Russia's passenger turnover decreased by 45.2% y-o-y to 312.7 bn pkm.¹ Passenger turnover by transport mode is outlined below:

- 78.6 bn pkm in railway transport;
- 80.4 bn pkm in road transport;
- 153.5 bn pkm in air transport.

2020 saw a decrease in passenger turnover across all transport modes. Despite a 41.2% y-o-y drop in railway passenger turnover, its share in total passenger turnover went up 1.7 pp to 25.1%.

The share of the road transport (bus service) segment in total public transport passenger turnover is 25.7% (up 5.8 pp vs 2019). Air transport accounts for 49.1% of total public transport passenger turnover (down 7.5 pp vs 2019).

Freight turnover by transport mode in 2020

Transport mode	2020		Share in total freight turnover, %	
	bn tkm	Y-o-y change, %	2019	2020
All transport modes	5,397.2	-4.9	100.0	100.0
Railway ²	2,545.3	-2.2	45.9	47.2
Including the infrastructure of Russian Railways and Yakutia Railways ³	2,544.8	-2.2	45.9	47.2
Road	271.8	-1.3	4.9	5.0
Including commercial road transport	149.9	-1.3	2.7	2.8
Sea ⁴	42.5	+16.2	0.6	0.8
Inland waterways	60.2	-8.6	1.16	1.12
Air (transport aviation)	7.1	-3.7	0.13	0.13
Pipeline	2,470.2	-8.0	47.3	45.8
For reference:				
Share of railway transport excluding pipelines			87.1	87.0
Share of Russian Railways excluding pipelines			87.1	87.0

¹ Excluding intra-urban transport.

² Loaded freight turnover.

³ Freight turnover according to Russian Railways excluding empty runs of own railcars.

⁴ For reference: freight transportation by sea and inland waterways includes shipments made under freight transportation contracts by the company's own and/or leased (chartered) vessels (including vessels leased to foreign companies (charterers) under time charter arrangements) flying the flag of the Russian Federation with the relevant shipping documents in place.

In 2020, the COVID-19 pandemic and partly cancelled regular and charter flights caused passenger turnover in air transport to go down by 52.5% y-o-y.¹ In 2020, passenger turnover of Russian airlines on international air routes decreased by 74.2%. Domestic routes saw a considerably smaller decrease of 22.3%. The domestic flights' share of total passenger turnover of Russian airlines rose by 26.6 pp amid reduced passenger turnover on international routes. As a result, railway transport in the deregulated segment remains under competitive pressure of air transport on domestic routes.

Position of Russian Railways in the railway industry

Freight transportation

Russian Railways is the only carrier in rail freight transportation that operates its fully owned infrastructure. Since 2011, the Russian Railways Group's railcar fleet intended for commercial use has been owned by the Company's subsidiaries and affiliates. Further information on their business is available in respective sections of this report.

Passenger transportation

Russian Railways provides rail infrastructure for passenger transportation and is the only Russian company that carries out ultra high-speed passenger transportation by rail. Russian Railways' subsidiaries and affiliates provide conventional long-haul and suburban railway transportation services. Further information on their business is available in respective sections of this report.

Passenger turnover by transport mode in 2020

Transport mode	2020		Share in total passenger turnover, %	
	bn pkm	Y-o-y change, %	2019	2020
Public transport total	312.7	-45.2	100.0	100.0
Railway	78.6	-41.2	23.4	25.1
Including Russian Railways' infrastructure	78.1	-41.4	23.4	25.0
Road (bus service)	80.4	-29.1	19.9	25.7
Inland waterways	0.2	-59.5	0.1	0.07
Sea	0.03	-39.5	0.009	0.01
Air	153.5	-52.5	56.6	49.1

¹ According to the Federal Air Transport Agency (Rosaviatsiya).